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AZ CORP COMMISSION
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Attorneys for Southwest Energy Efficiency Project
and Western Resource Advocates, Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON, CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE OF
ITS OPERATIONS THROUGHOUT THE
STATE OF ARIZONA

DOCKET NO. E-01933A-07-0402

IN THE MATTER OF THE FILING BY
TUCSON ELECTRIC POWER COMPANY TO
AMEND DECISION NO. 62103

DOCKET NO. E-01933A-05-0650

**NOTICE OF FILING DIRECT
TESTIMONY**

Southwest Energy Efficiency Project through its undersigned counsel, hereby provides
notice that it has this day filed the written direct testimony and exhibits of Jeffrey A. Schlegel in
connection with the above-captioned matter.

Arizona Corporation Commission

DOCKETED

FEB 29 2008

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1 DATED this 29th day of February, 2008.

2 ARIZONA CENTER FOR LAW IN
3 THE PUBLIC INTEREST

4
5 By 

Timothy M. Hogan

6 202 E. McDowell Rd., Suite 153

7 Phoenix, Arizona 85004

8 Attorneys for Southwest Energy Efficiency

Project and Western Resource Advocates, Inc.

9 ORIGINAL and 15 COPIES of
10 the foregoing filed this 29th day
of February, 2008, with:

11 Docketing Supervisor
12 Docket Control
13 Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

14 COPIES of the foregoing
15 electronically transmitted
16 this 29th day of February,
2008, to:

17 All Parties of Record
18
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20
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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DOCKET NO. E-01933A-05-0650

Direct Testimony of

Jeff Schlegel
Southwest Energy Efficiency Project (SWEEP)

February 29, 2008

**Direct Testimony of Jeff Schlegel, SWEEP
Docket No. E-01933A-07-0402**

Table of Contents

Introduction	1
Summary of Testimony and Recommendations	2
The Public Interest: Benefits of Increasing Energy Efficiency in the TEP Service Territory	3
Commission Review of the TEP-Proposed DSM Program Portfolio	3
When Might Customers Experience the Benefits of Increased DSM Programs?	4
Two Options for Timely Commission Approval of DSM Cost-Recovery	5
Other DSM Issues	5

Introduction

1
2
3
4 Q. Please state your name and business address.

5
6 A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive,
7 Tucson, Arizona 85704-3224.
8
9

10 Q. For whom and in what capacity are you testifying?
11

12 A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP). I am
13 the Arizona Representative for SWEEP.
14
15

16 Q. Please describe the Southwest Energy Efficiency Project.
17

18 A. SWEEP is a public interest organization dedicated to advancing energy efficiency as
19 a means of promoting both economic prosperity and environmental protection in the
20 six states of Arizona, Colorado, New Mexico, Nevada, Utah, and Wyoming. SWEEP
21 works on state energy legislation, analysis of energy efficiency opportunities and
22 potential, expansion of state and utility energy efficiency programs as well as the
23 design of these programs, building energy codes and appliance standards, and
24 voluntary partnerships with the private sector to advance energy efficiency. SWEEP
25 is collaborating with utilities, state agencies, environmental groups, universities, and
26 energy specialists in the region. SWEEP is funded primarily by foundations, the U.S.
27 Department of Energy, and the U.S. Environmental Protection Agency.
28
29

30 Q. What are your professional qualifications?
31

32 A. I am an independent consultant specializing in policy analysis, evaluation and
33 research, planning, and program design for energy efficiency and clean energy
34 resources. I consult for public groups and government agencies, and I have been
35 working in the field for over 20 years. In addition to my responsibilities with
36 SWEEP, I am working or have worked extensively in many of the states that have
37 effective energy efficiency programs, including California, Connecticut,
38 Massachusetts, New Jersey, Vermont, and Wisconsin. In 1997, I received the
39 Outstanding Achievement Award from the International Energy Program Evaluation
40 Conference. I have represented SWEEP before the Commission since 2002.
41

Summary of Testimony and Recommendations

Q. Please summarize your testimony.

A. I will testify that:

- The Commission should increase energy efficiency in the Tucson Electric Power Company (TEP) service territory as soon as possible to achieve significant and cost-effective benefits for TEP customers, the electric system, the economy, and the environment.
- Demand-side management (DSM) and energy efficiency programs proposed by TEP are being reviewed by Staff and the Commission in a separate, parallel docket.
- It is not in the public interest to delay the implementation of expanded and new cost-effective energy efficiency programs for TEP customers until after the conclusion of this rate case, which could be as late as 2009.
- Specifically, the Commission should provide cost-recovery for Commission-approved DSM programs, including for the new and expanded programs that are in the process of Commission review, to benefit TEP customers in a timely manner, and by no later than June 4, 2008, by either:
 - (1) Reviewing the DSM Adjustor Mechanism proposed by TEP early in the hearing process and approving the DSM Adjustor Mechanism (with any Commission-adopted revisions) in an early order in this rate case; or
 - (2) Implementing an accounting or other mechanism to provide interim cost-recovery for Commission-approved DSM programs and expenditures, until such time that the DSM Adjustor or other mechanism is adopted by the Commission.

The Public Interest: Benefits of Increasing Energy Efficiency

Q. What is the public interest in increasing energy efficiency in the TEP service territory?

A. Increasing energy efficiency will provide significant and cost-effective benefits for TEP customers (residential consumers and businesses), the electric system, the economy, and the environment. Increasing energy efficiency will save consumers and businesses money through lower electric bills, resulting in lower total costs for customers. Increasing energy efficiency will also reduce load growth, diversify energy resources, enhance the reliability of the electricity grid, reduce the amount of water used for power generation, reduce air pollution and carbon emissions, and create jobs and improve the economy. In addition, meeting a portion of load growth through increased energy efficiency can help to relieve system constraints in the Tucson-area load pocket.

By reducing electricity demand, energy efficiency mitigates electricity and fuel price increases and reduces customer vulnerability and exposure to price volatility. Energy efficiency does not rely on any fuel and is not subject to shortages of supply or increased prices for fuels.

Energy efficiency is a reliable energy resource that costs less than other resources for meeting the energy needs of customers in the TEP service territory. The total cost (sum of program and customer costs) for energy efficiency savings is two to three cents per lifetime kWh saved, delivered to the customer. This is significantly less than the cost of conventional generation, transmission, and distribution.

Commission Review of the TEP-Proposed DSM Program Portfolio

Q. Are Staff and the Commission reviewing TEP-proposed DSM programs, including new and expanded programs, in a separate, parallel docket?

A. Yes, the TEP-proposed DSM Portfolio is being reviewed in a separate docket in parallel to this rate case proceeding.

Q. Do you plan to comment on the proposed DSM programs in your testimony in this rate case proceeding?

A. No.

**When Might TEP Customers Experience the Benefits of
Increased DSM and Energy Efficiency Programs?**

Q. Considering the direct testimony of TEP in this case, when do you estimate TEP might increase its efforts and implement additional cost-effective DSM and energy efficiency programs, and when do you estimate TEP customers might receive the benefits of such programs (assuming Commission approval of the additional TEP-proposed programs)?

A. Based on the TEP direct testimony (Tom Hansen direct testimony, p. 8), apparently TEP proposes to wait until after the conclusion of this rate case to implement the TEP-proposed DSM Portfolio of new and expanded DSM programs. TEP is requesting that the DSM Adjustor and the DSM Portfolio be effective simultaneously, which, absent early action by the Commission, would apparently not take place until after the final order in this proceeding.

If the DSM program cost-recovery issues are not addressed until the end of this rate case proceeding, and if the new and expanded DSM programs are not implemented until sometime after the completion of the rate case, customers might have to wait until 2009 before they experience the benefits of the new and expanded DSM and energy efficiency programs.

Q. Is the estimated timing you describe above reasonable? Is it in the public interest?

A. No, the estimated timing is not reasonable and it is not in the public interest. Delaying the implementation of cost-effective DSM programs to such a degree disadvantages customers and increases the total costs customers pay. In the scenario I describe above, customers would not have access to new and expanded cost-effective DSM and energy efficiency programs until 2009.

The timing and the end results of such a delay in the implementation of cost-effective DSM and energy efficiency programs are clearly counter to the public interest.

Q. Would timely Commission approval of DSM cost-recovery provide value to customers and be in the public interest?

A. Yes. Timely Commission approval of a DSM cost-recovery mechanism, even an interim mechanism, would speed the implementation of cost-effective DSM and energy efficiency programs approved by the Commission, which by definition means that the DSM programs and associated funding would provide positive net benefits, increased financial value, and lower total costs for TEP customers.

Two Options for Timely Commission Approval of DSM Cost-Recovery

Q. What options do you recommend for timely Commission approval of DSM cost-recovery in this proceeding?

A. Specifically, the Commission should provide cost-recovery for Commission-approved DSM programs, including for the new and expanded programs that are in the process of Commission review, to benefit TEP customers in a timely manner, and by no later than June 4, 2008, by either:

(1) Reviewing the DSM Adjustor Mechanism proposed by TEP early in the hearing process and approving the DSM Adjustor Mechanism (with any Commission-adopted revisions) in an early order in this rate case; or

(2) Implementing an accounting or other mechanism to provide interim cost-recovery for Commission-approved DSM programs and expenditures, until such time that the DSM Adjustor or other mechanism is adopted by the Commission.

Other DSM Issues

Q. Is a DSM Adjustor Mechanism an appropriate mechanism for DSM cost-recovery?

A. Yes, SWEEP supports the use of a DSM Adjustor Mechanism for DSM cost-recovery, and a DSM Adjustor is used by APS to recover a portion of Commission-approved DSM expenses. SWEEP will comment on the specific design of the TEP-proposed DSM Adjustor Mechanism in its direct testimony on rate design and cost of service.

Q. What are your positions on the two incentive mechanisms proposed by TEP?

A. SWEEP supports the DSM Performance Incentive proposed by TEP (Tom Hansen direct testimony, pgs. 14-15) and has supported a similar performance incentive mechanism for APS. In this performance-based incentive mechanism, TEP would have the opportunity to earn up to 10% of the measured net benefits from the eligible DSM programs, capped at 10% of the actual program spending. This is a positive incentive to encourage the achievement of net benefits, with at least 90% of the net benefits accruing to customers.

SWEEP disagrees with the TEP assertion that the purpose of the performance incentive mechanism is to mitigate the effect of net lost revenues on the company (Tom Hansen direct testimony, p. 14). The purpose of the performance incentive is to encourage the achievement of net benefits for customers, through the sharing of a small portion of those net benefits with the utility program administrator.

1 SWEEP also supports the TEP-proposed enhanced financial incentive for certain high
2 energy-efficiency expenditures (Tom Hansen direct testimony, pgs. 11-13), for assets
3 installed at TEP customer premises that are financially supported by investments TEP
4 would make in addition to the DSM program funding, and subject to the conditions
5 TEP set forth (Tom Hansen direct testimony, p. 12). However, it is not clear to
6 SWEEP that TEP needs an additional financial incentive from ratepayers to increase
7 the efficiency and reduce the losses of the transmission and distribution system it
8 owns and operates.
9

10
11 Q. Does that conclude your direct testimony?
12

13 A. Yes.